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Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday 25 October 1977 CG NIDC 77/247C

NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Tuesday, 25 October 1977.

The NID Cable is for the purpose of informing senior US officials.

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USSR: Brezhnev Comments on SALT

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[] Soviet President Brezhnev's remarks on SALT Friday at a Kremlin dinner for Indian Prime Minister Desai appear to be the most positive he has made on the subject this year.

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[] Brezhnev said the Soviets "would like to bring these negotiations to a successful conclusion without unnecessary delays." In adding that this is quite attainable "given a realistic and businesslike approach on the American side"--an implication that US concessions are necessary in the interest of such "realism"--he was resorting to standard Soviet negotiating tactics.

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[] Brezhnev's toast also contained the common Soviet line that an arms-control agreement was necessary to arrest the dangerous arms race and to prevent a potential nuclear war. He termed it "crazy logic" to continue to build up strategic forces.

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[] In his remarks on CSCE, Brezhnev omitted any reference to contentious human rights issues now under discussion at the Belgrade CSCE conference.

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[] On Sunday, however, TASS strongly criticized US Ambassador Goldberg's speeches in Belgrade, terming them "sermonizing" and tactless attempts to tell others how to manage their domestic affairs. TASS added stridently that "attempts by US diplomacy to achieve a confrontation" at Belgrade "can only impede the process of relaxation of international tensions."

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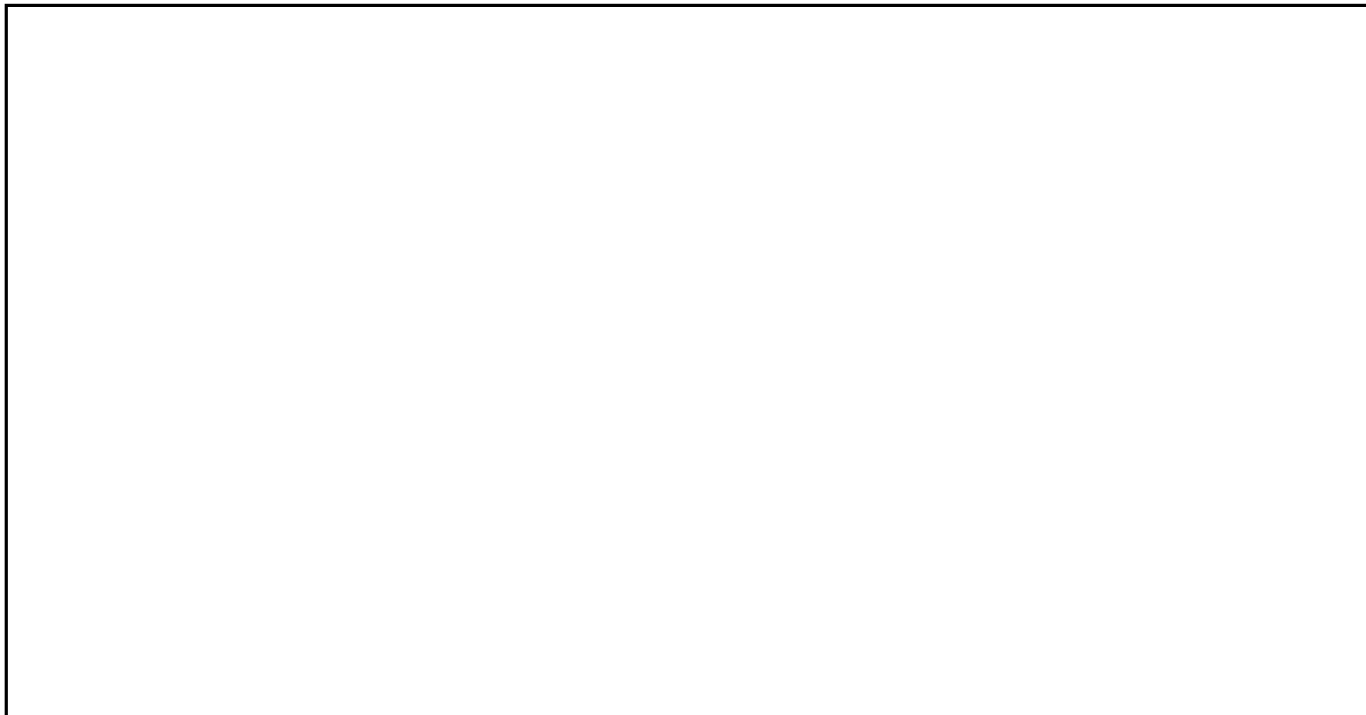
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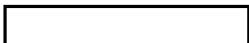
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UK: Modest Economic Package

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 //British Chancellor of the Exchequer Healey will announce a modest package of measures this week designed to stimulate the economy. The proposals, mostly income tax cuts, will probably amount to about \$1.4 billion. The Labor government hopes the package, by increasing workers' take-home pay, will encourage trade unions to moderate their pay claims through the fall and winter months. Healey has publicly hinted that more reflationary measures are in store for the regular budget in the spring if wage settlements do not rekindle inflation.//

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 //Healey's announcement is expected to come tomorrow when the House of Commons meets to close the present parliamentary session. The new session will begin on 3 November with the traditional speech from the throne outlining the Callaghan government's objectives for the year to come.//

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[] //The Trades Union Congress has been pushing for an increase in public spending, but Healey favors tax cuts as the method having the most immediate impact on demand. The government may also opt to stimulate demand by granting a special \$17 Christmas bonus to old-age pensioners.//

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[] //Since pay controls expired at the end of July, there has been no major breach of the government's unilaterally declared 10-percent pay guidelines. Neither has there been an occasion for a key union to challenge the guidelines. This respite will not last much longer. The government's position will be put to a test over the next several weeks as auto workers at Ford and the nationalized British Leyland firms react to management pay offers.//

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[] //The miners' union will probably pose the most difficult obstacle to wage restraint. The miners' demand for a 90-percent wage boost starting on 1 November is a violation not only of the government's guidelines but also of the Trades Union Congress' backing for a 12-month gap between pay settlements. The government's allies in the miners' union leadership, however, are trying to head off a confrontation by substituting for the huge pay demand a scheme that would tie wage rises to increases in productivity. []

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ZAMBIA: Economic Proposals

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[] *Zambian President Kaunda has announced new economic proposals designed to reduce dependence on copper earnings and attain agricultural self-sufficiency. Kaunda, who has made similar proposals before, is responding to criticism of past economic policy, but such a program could lead to further discontent.*

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[] Kaunda's specific proposals include a reduction in the number of civil servants, sending redundant government workers and the unemployed to the countryside, and asking small land holders to become self-sufficient in food production. A goal for agricultural exports has been set at 50 percent of total exports, up from a current level of about 8 percent.

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25X1 [redacted] //The copper industry currently accounts for 90 percent of Zambia's foreign exchange earnings and is the country's largest private, nonagricultural employer. Stockpiles of copper have been growing, even though Zambian mines have been operating below capacity. World prices for copper are less than 60 cents a pound, barely above Zambian production costs.//

25X1 [redacted] //Cuts in mine or civil service personnel, if they occur, undoubtedly will be small, and long-term mine closures seem unlikely. Closing the mines would be costly not only in terms of lost foreign exchange earnings but also in unemployment--already a serious problem--and maintenance costs for the shut-down mines. Forcing the unemployed or government workers into the agricultural sector will aggravate--at least temporarily--food shortages in the rural areas caused by a reduced maize crop.//

25X1 [redacted] //Kaunda's economic proposals apparently reflect his sensitivity to growing charges that he has neglected Zambia's domestic problems. Some Zambian political figures are charging that the country's economic difficulties are due to Kaunda's preoccupation with foreign policy--chiefly the Rhodesian situation.//

25X1 [redacted] //If Kaunda implements his plans, however, he will be faced with discontent among civil servants sent to the countryside and miners who lose their jobs. Until now, the government has not closed any copper mines because it has not wanted to antagonize the miners. Kaunda considers the copper belt Zambia's most politically sensitive region, and he would not want to lose support in the area before the national election scheduled for next year.//

25X1 [redacted] //Kaunda may think he recently strengthened his position enough to risk some layoffs when he persuaded former Vice President Simon Kapwepwe to rejoin the ruling party. Kapwepwe is a leader of the country's largest tribal group, the

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Bemba, many members of which work in the copper mines. He had been viewed by some of Kaunda's critics as a potential opposition leader.///

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CEMA: Possible \$800 Million Loan

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[redacted] //The International Investment Bank, an agency of the Soviet-led Council for Mutual Economic Assistance, is negotiating an \$800-million syndicated loan to be managed by Chase Manhattan Bank. The ostensible purpose of the loan is to pay for hard-currency purchases for the Orenburg pipeline--a CEMA project to transport gas from the Orenburg gas field in the USSR to the Soviet-Czechoslovak border.//

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[redacted] //The bank has already borrowed almost \$1.5 billion from the West to finance the East European countries' contribution to the pipeline project, thus bringing total funds borrowed for the pipeline to almost \$2.3 billion. If the loan is approved, it will be the largest ever granted to a Communist entity and the first time a US bank has led the consortium for a loan to CEMA. The large Western banks apparently continue to view borrowing by the International Investment Bank as an attractive and secure business despite the East's rapidly growing hard-currency debt. [redacted]

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HUNGARY-USSR: Energy

[redacted] Soviet oil exports to Hungary probably will not increase between 1980 and 1990. A doubling of Soviet gas deliveries and a huge expansion of nuclear power production, however, will permit the energy-poor Hungarians to maintain their present 3.5- to 4-percent annual growth rate of energy consumption.

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[redacted] During a recent lecture, the economist disclosed that the Hungarian Government estimates that oil consumption will increase during the decade ending in 1990 by only 90,000 barrels per day above the expected 1980 consumption of 270,000 barrels per day. Most, if not all, of the increase will probably come from the Middle East through the future Pan Adriatic pipeline. Imports from the Middle East, in fact, might increase by more than 90,000 barrels per day and Soviet deliveries might decline. Soviet oil exports to Hungary amounted to 170,000 barrels per day in 1976 and are scheduled to reach 180,000 to 200,000 barrels per day by 1980.

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[] The reduced growth in the use of oil during the 1980s will reverse the historical trend of a rapid increases in oil's share of Hungarian energy consumption. By 1990, oil will account for 38 percent of total energy consumption, down from a projected 42 percent in 1980.

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[] //Soviet natural gas deliveries to Hungary apparently will increase from the planned 1980 level of 3.8 billion cubic meters (equivalent to 64,000 barrels per day of oil) to about 8 billion cubic meters (135,000 barrels per day) by 1990. The additional gas may be delivered through a pipeline that could be built adjacent to the Orenburg line.

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[] Nuclear power will climb from a negligible share of energy consumption in 1980 to 10 percent by 1990. Hungary plans to put its first nuclear reactor into operation in 1980 and to have an installed capacity of 4,400 megawatts by 1990, supplying 30 percent of electric power needs. A major expansion of nuclear power is necessary because of limited indigenous reserves of oil, gas, and coal.

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ITALY: Aggressive Arms Sales

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[] //Italy ranks fifth among non-Communist arms suppliers after the US, France, UK, and West Germany. The Italians have been aggressive arms exporters, and the effort has paid important dividends, including increased influence and good will in client countries, improved foreign exchange earnings, and more jobs. Exports help maintain a larger and more competitive defense industry than would be warranted by the limited demand from Italy's relatively small armed forces.//

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[] //Italian arms sales from 1972 through the middle of 1977 approached \$3 billion; about three-fourths of the total went to Latin America, the Middle East, and North Africa. After a sharp decline last year, sales rebounded in the first half of 1977, primarily because of a \$425-million helicopter sale to Iran.//

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25X1 [] //Italian military exports include small arms, ammunition, and jet trainer aircraft. Italy also has become an important supplier of light warships. Sales of destroyer escorts to Peru and Venezuela and helicopters and aircraft equipment to Iran and Libya rank high among recent orders.//

25X1 [] //A large share of the exports consists of items produced in Italy under foreign license, especially from the US. Italian export policy is permissive, but foreign licensors sometimes refuse to approve Italian sales. Although the Italians have complained that US policy is too restrictive, they claim to adhere to US restrictions on transfers. Recent Italian efforts to export G-222 transport aircraft to Libya, for example, have been stalled by US refusal to permit transfer of the American-designed engines.//

25X1 [] //In the past, Italians have been willing to violate an embargo to gain a fast sale. Italian firms sold aircraft and electronic equipment to South Africa in 1963 and helped the South Africans establish their own aircraft industry.//

25X1 [] //Italy would resist proposals for international restraint on arms exports to Third World countries. Nevertheless, in the unlikely event that all other major Western arms suppliers agree to a program of international restraint, Italy probably would go along rather than risk isolation from its political and military allies. If the US were to reduce its arms exports unilaterally, the Italians would try to increase their market share as much as their high dependence on US technology, patents, and licenses would allow.//

25X1 [] Rome's attitude towards the arms industry is laissez-faire. Arms exports are not regulated by legislation, but rather by a special committee from the Defense, Foreign Trade, and Finance Ministries. The committee seldom refuses export requests.

25X1 [] //Italy has also shown flexibility in arranging payment. This year's big arms sale to Tehran is a barter deal under which Italian helicopters will be swapped for Iranian crude oil.//

25X1 [] //The government not only values the foreign exchange and employment generated by arms sales--the arms industry

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employs roughly 150,000 workers--but also believes that the exports improve Italy's position with Third World countries, especially with key Middle Eastern and African oil producers. Most arms-producing firms belong to state holding companies and are among the few state-owned firms currently showing profits.//

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[redacted]//The Italian Communist Party is the main proponent of restrictions on arms exports. Because Prime Minister Andreotti's minority government stays in power by the grace of Communist abstentions in parliament, the Communists probably could force some curbs if they decided to do so. The party recently published a proposal on the arms export issue that included an outline of a new system for controlling export permits and a demand for halting arms sales to "racist and authoritarian" states, but they apparently do not intend to force the issue at this time. Chile and South Africa are the nations most often cited by the Communists as targets of arms embargoes.// [redacted]

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NORTH KOREA: Financial Position

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[redacted] North Korea has failed thus far to make the economic adjustments necessary to improve its international financial position. Despite the rescheduling early this year of most of its \$1.4 billion external debt, Pyongyang has been unable to meet the required interest payments. Large principal payments will again start coming due late next year. Confidence in North Korea's ability to pay is at an all-time low; even the optimistic Swedes have pulled out in the last stages of a major mining project.

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25X1 [] Trade returns for the first half of 1977 indicate a continuing decline in exports, reflecting general production problems and the depressed market for such important export items as nonferrous metals. Major changes in North Korea's trade corporations last year and numerous exhortations by the government have so far failed to stimulate export production.

25X1 [] North Korean exports to the West during the period from January to June declined by 17 percent in value compared with the first half of 1976. The drop in sales to these hard currency countries has sharply reduced foreign exchange earnings needed to meet interest payments and to purchase essential items.

25X1 [] North Korean imports from the West fell at a somewhat slower pace than exports during the first half of this year, preventing any improvement in the country's hard currency trade deficit. In 1976, the cutoff of Western credit following large scale defaults in 1975 resulted in a 37 percent drop in imports from these countries; purchases of capital machinery fell to half their former level. Imports from Communist countries also declined, mainly in response to Pyongyang's failure to meet its export commitments.

25X1 [] Even if domestic production and exports pick up, the top priority assigned to the military sector will probably forestall significant progress in debt repayment.

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25X1 [] North Korea's international financial problems have complicated the preparation of its Seven Year Economic Plan (1978-1984). Billions of dollars worth of Western technology and capital equipment will be needed to reach targets already stated informally. Only a small fraction of this equipment is likely to become available. The plan, already postponed for two years, is scheduled to begin in January. []

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BRIEFS

Israel

The Israeli parliament voted 62 to 34 yesterday to approve Yigael Yadin and three other members of the Democratic Movement for Change to Prime Minister Begin's cabinet. Yadin will serve as deputy prime minister, and his colleagues will head the Ministries of Justice, Transport and Communications, and Labor and Social Betterment.

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[] Jerusalem Radio reported yesterday that Prime Minister Begin, in a surprise move, has nominated two ministers without portfolio; one of them is from the Liberal faction of the Likud Party and the other from its Herut faction. The nominations are a move by Begin to counteract the shift of power in the cabinet accompanying the addition of the four members of the Democratic Movement for Change. []

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Panama

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[] The latest returns from Sunday's plebiscite indicate that the Panama Canal treaties were approved by slightly more than a two-to-one margin. Final returns are to be announced Thursday. The plebiscite appears to have been conducted smoothly, and the yes vote is well above 50 percent in each of the 10 jurisdictions. []

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Africa-UN

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[] Nigeria yesterday won a two-year term on the UN Security Council after five ballots by members of the General Assembly. Such contests are seldom necessary, as each regional caucus group selects a single nominee for the rotating Security Council seat accorded it. For a West African seat available this year, however, Nigeria and Niger--which, unlike Nigeria, has never held a Security Council seat--were locked in contest.

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[] The much smaller Niger won the endorsement of the Organization of African Unity heads of state in July to replace the incumbent, Benin. Nigerian Head of State Obasanjo subsequently decided that his country's aspirations to leadership in Africa would be enhanced by Security Council membership, but he was unable to persuade Niger to withdraw its candidacy.

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[] Czechoslovakia, Bolivia, Gabon, and Kuwait were elected routinely to the other regional Security Council seats for the 1978-79 term. They replace Romania, Panama, Pakistan, and Libya. A non-permanent member has no veto. []

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